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Research Report on America's Cities

THE STATE OF THE SMALL CITY

A Survey of the Nation's Cities and Towns Under 50,000

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

NATIONAL LEAGUE OF CITIES

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THE STATE OF THE SMALL CITY:
A Survey of the Nation's Cities and Towns Under 50,000

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of the National League of Cities

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PREFACE

We are pleased to present The State of the Small City: A Survey of the Nation's Cities and Towns Under 50,000 to NLC's membership and to the public. The State of the Small City Survey was conducted in the spring of 1987 by the National League of Cities' Office of Membership Services on behalf of NLC's Small Cities Council, as the first step in the SCC's State of the Small City Project.

The Small Cities Council is a constituency group within the National League of Cities that represents the special needs and concerns of communities under 50,000.

By conducting this survey and publishing this report NLC seeks to contribute to a better understanding of the problems, concerns and challenges facing smaller cities and towns. We have begun to apply what we've learned in order to better assist these cities and towns assess their own futures and build their capacities to provide the programs and services their citizens need and want.

We sent the survey to 1,110 cities and towns under 50,000, including member cities of NLC and to other selected smaller cities and towns identified for us by our state municipal associations. This report is based on the responses we received from 395 cities and towns.

This effort was initially guided by Marc Shapiro, formerly with NLC's Office of Membership Services, and now with NLC's State League Services. The effort was later guided and directed by Linda R. Woodhouse, small cities liaison and staff associate with NLC's Office of Membership Services.

The survey instrument was developed by Linda McGregor Matlock, a graduate student at Virginia Commonwealth University, in consultation with NLC staff and the Small Cities Council and its officers: Mayor Art Ashley, Nitro, West Virginia, chair; Council Member Stephen Cassano, Manchester, Connecticut, first vice chair; and Council Member Carol Day, Gorham, Maine, second vice chair.

Ms. Matlock also analyzed the data. The report was written by Ms. Matlock and Ms. Woodhouse. In addition, data on city budgets and personnel was provided by Douglas D. Peterson, with NLC's Office of Policy Analysis and Development.

We believe our report is a useful contribution for those who are interested in the needs and concerns of the more than 14,500 cities and towns across the nation under 50,000. We invite comments and questions about this study.

Alan Beals
Executive Director

Thomas H. McCloud
Director, Office of Membership Services

William E. Davis III
Director, Office of Policy
Analysis and Development

ACKNOWLEDGEMENTS

I would like to recognize several individuals and express my appreciation for their help and continued support. Without their effort, this report would not have been possible. First, I would like to thank the officials from the 395 cities and towns who took time from an already busy schedule to complete and return the survey. Without their response there would be no report.

Second, to Kathryn Shane McCarty, director of information services with NLC's Office of Membership Services, for assigning me this project, having faith in my ability, and providing guidance and encouragement.

Third, to Linda R. Woodhouse, staff associate with the Office of Membership Services, for her continuing guidance, encouragement, and oversight throughout this project.

Finally, to Mae Davis, with the Office of Membership Services, for her help, patience, and support throughout the early stages of the process.

Linda McGregor Matlock

In addition to those already mentioned, I would like to acknowledge several others who provided valuable assistance during the writing and revising of this report. First, to Douglas D. Peterson, with NLC's Office of Policy Analysis and Development, who not only supplied the information on which Chapter III is based, but was a source of guidance throughout this project.

Second, to William Barnes, NLC's director of research, whose thoughtful suggestions during the revision process made this a better report in the end.

Third, to B.J. Reed, with the University of Nebraska at Omaha and formerly with NLC, who reviewed the final draft of this report under a tight deadline, and made worthwhile suggestions.

And, finally, to Karen Parker, with the Office of Federal Relations, and Deborah Johnson, with the Office of Policy Analysis and Development for their assistance in preparing the final document.

Linda R. Woodhouse

THE STATE OF THE SMALL CITY:
A Survey of the Nation's Cities and Towns under 50,000

By
Linda McGregor Matlock
and
Linda R. Woodhouse
National League of Cities
August 1987

EXECUTIVE SUMMARY

In 1987, 395 cities and towns with populations under 50,000 responded to an NLC survey about the problems and concerns of smaller communities. The survey was conducted by NLC's Office of Membership Services on behalf of the Small Cities Council, which represents the special concerns of smaller communities within NLC.

These are the major themes that emerged from the survey findings:

- There is broad disparity among small cities and towns in their overall economic and fiscal conditions.
- Federal mandates imposed on cities and towns, without accompanying funds to cover the costs, continue to cause serious problems for cities and towns.
- Legal liability issues remain serious problems for small communities.
- While many small cities and towns were hard hit by the loss of General Revenue Sharing, they continue to provide a broad range of basic services to their citizens, but often at reduced levels.

These are some of the specific findings:

Community Conditions and Problems

- Cities and towns said their ability to attract industry and jobs was their top problem for both 1986 and 1987, even though 41 percent of cities and towns that responded said their ability to attract industry and jobs had "improved" over the past year.

- While overall economic conditions improved in 37 percent of the cities and towns responding, they worsened in 30 percent of communities, and stayed the same in 28 percent of communities, suggesting uneven economic conditions in cities across the nation.

- Other top problems facing cities and towns included streets, roads and sidewalks, and overall economic conditions.

- The community condition that has improved the most over the past year is interest rates on city borrowing, cited by 59 percent of respondents.

- When presented with a list of 20 community conditions, 39 percent of the respondents reported that small business closings/farm foreclosures and problems with drugs had "worsened" in the past year.

Services Cities and Towns Offer

- Cities will provide about the same level of most services for the fiscal year ending in 1988 as for the current fiscal year.

- Infrastructure and economic development are the two areas where the most cities will offer more services in 1987 and 1988.

Small Cities and the Loss of General Revenue Sharing

- Fifty-seven percent of cities responding reported that funds from the now-defunct General Revenue Sharing program were the only federal funds directly received by their city or town during the last fiscal year; 69 percent of those communities which said GRS was the only federal money received are under 10,000 population.

- More than half the respondents said they used GRS money solely for capital outlays; 57 percent said GRS represented five percent or less of their general tax support during the current fiscal year.

- The impact of the loss of GRS was uneven. While 21 percent of cities and towns in the South said they'd have to raise property tax rates by more than 10 percent to maintain the same level of services, 17 percent in the West, 10 percent in the Midwest and no responding cities from the Northeast would require such an increase.

- More than half of cities responding reduced services for streets and roads due to the loss of GRS; 37 percent cut back park and recreation programs; 24 percent reduced police services; and 20 percent reduced fire services.

Federal Mandates

- Fifty-four percent of respondents identified clean water as one mandate causing them problems, and 51 percent said mandates concerning employee benefits were causing problems. Many cities listed several mandates that caused them problems.

- Almost half of responding cities are using a variety of methods to cover the cost of federal mandates, including increasing user fees, raising taxes and cutting spending.

Shift in Population and Age

- Seventy-one percent of respondents reported a significant shift (five percent or more) in the composition of their communities' populations since the 1980 Census.

- Almost half of the respondents said changes in the makeup of their populations have had multiple effects, including an increase in the tax base, and increased demands for education, social services, housing, and parks and recreation; 17 percent said changes in population had reduced the tax base and 15 percent said that their tax base had increased because of those changes.

Legal Liability and Liability Insurance Crisis

- Eighty percent of respondents said concerns about legal liability, the cost of liability insurance, and the availability of liability insurance remain critical or serious problems for their communities.

- Ninety-one percent of respondents that buy commercial insurance said legal liability, affordability and availability were serious or critical problems, while 67 percent of cities that participated in pools gave the same response.

- More than 90 percent of awards made by responding cities and towns over the last three years came as a result of out-of-court settlements.

- Nearly one-third of cities and towns responding have had no awards or settlements in the last three years.

Consolidation/Disincorporation

- Despite hardships many small communities are experiencing, an overwhelming 96 percent said they are not facing legal consolidation or disincorporation.

The City Budget and Personnel

This report also includes information for cities under 50,000 collected as part of NLC's annual fiscal conditions survey conducted in March 1987. Among those findings:

- An increasing number of small cities continue to see their current general fund expenditures outpace their current general fund revenues; 60 percent of cities are reducing their beginning balances in order to keep the general fund in the black.

- More than half of cities responding anticipate expenditures for Fiscal Year 1987 will exceed revenues, compared to 30 percent in 1985 and 34 percent in 1986.

- While 28 percent of cities under 10,000 saw a revenue decline in 1986, 53 percent expect lower revenues in 1987.

- More than one-fourth of cities in all regions of the country are cutting back the number of municipal employees.

CHAPTER I
INTRODUCTION

Many smaller cities and towns across the nation are facing difficult problems--many of them caused by changes beyond their control. A blend of forces has made it much more challenging in recent years for smaller communities to offer the programs and services citizens want and need.

Among those forces:

- federal and state laws and policies that restrict the powers of cities and towns to govern;

- cutbacks in federal aid, coupled with limits in many states on the amount and ways cities and towns may raise revenue at the local level;

- problems with the local economy--whether it be the farm credit crisis in the South and Midwest, the oil bust in the Southwest, or the loss of the textile industry to foreign competition in the South and the accompanying loss of Main Street businesses, banks that must close, and residents who reluctantly seek better opportunities elsewhere;

- losses or gains in population that put strains--or restraints--on municipal services and budgets;

- the ever-increasing power of the courts at all levels over matters that affect the way even the smallest communities provide programs and services.

This report provides nationwide statistics on conditions of communities with populations under 50,000. The information in this report is drawn from the State of the Small Cities Survey which was mailed to the mayors of 1,110 cities and towns in early March 1987. All direct members of the National League of Cities with populations under 50,000 cities received the survey.

In an effort to ensure that cities with populations under 5,000 were represented in the survey results, each of NLC's 49 state municipal associations provided the names of two cities to which the survey was also sent. In addition, the survey was mailed to all elected officials serving on NLC's Small Cities Council.

More than three-fourths of NLC's direct member cities have populations under 50,000. Table I-1 shows the population breakdown for NLC direct member cities under 50,000.

TABLE I-1

NLC DIRECT MEMBER CITIES UNDER 50,000

Population Range	Percentage
Under 1,000	1%
1,000 to 4,999	13
5,000 to 9,999	16
10,000 to 19,999	32
20,000 to 39,999	30
40,000 to 50,000	8
	100%

We asked cities and towns to address these areas of concern:

(1) The services that cities and towns provide; how cities assess their ability to provide these services; and how population and demographic changes effect the kind and level of services needed;

(2) The impact of federal mandates and the loss of federal programs--especially the loss of General Revenue Sharing--on small cities and towns;

(3) How cities are coping with the rising costs of liability insurance, and how they are choosing to settle claims filed against them.

TABLE I-2

CITIES SURVEYED BY POPULATION

	Number	Percent
Less than 1,000	18	2
1,000 to 4,999	210	19
5,000 to 9,999	165	15
10,000 to 49,999	717	64
	1,110	100%

In addition, we report in Chapter III some of the findings for cities under 50,000 from the National League of Cities' annual fiscal conditions survey, City Fiscal Conditions in 1987, released in June 1987. The data for that chapter was provided by Douglas D. Peterson, senior policy analyst with NLC's Office of Policy Analysis and Development.

Those findings cover a fourth area of concern:

(4) The overall fiscal health of smaller communities, and the number of people cities and towns employ.

Quotations From City Officials

Each chapter of this report begins with a comment or quote from a city official who filled out the survey, or from subsequent discussions of survey findings by officials from smaller communities. Those comments, which come from the heart, lend a human flavor to the numbers. They remind us that behind these statistics lay the human concerns of people across the nation who live in and help govern the nation's small cities and towns.

CHAPTER II
THE CHANGING FACE OF SMALL CITIES AND TOWNS

"We are experiencing rapid growth and are unable to accurately predict future local revenues."

Wayne Campbell
Executive Assistant to the Mayor
Hoover, Alabama

"The creation, expansion, and retention of jobs would increase the tax base, stimulate the economy, decrease social service functions and retain youth in the community."

Robert E. Millett
Mayor
Rock Island, Illinois

The heart of America is its small cities and town. The U.S. Census Bureau's 1982 Census of Government reports that 62 percent of the country's 237 million people live in cities and towns, and almost half of all Americans living in cities--47 percent--reside in communities of under 50,000.

Cities and towns across the country have diverse characteristics. It is difficult to compare a farm community in Iowa with a resort community in Florida. Cities do, however, share three common characteristics: they all have some form of municipal government, they all serve citizens, and they all provide some level of programs and services.

Even though communities as diverse as Gorham, Maine and Grapevine, Texas responded to our survey, they share a common bond because of these three common characteristics.

Who Responded to the Survey

As Table II-1 shows, about one-third (31 percent) of officials from cities that responded to the survey live in communities with populations under 10,000. Another third live in communities with populations between 10,000 and 19,999. The remainder live in communities with populations between 20,000 and 50,000.

TABLE II-1

POPULATION OF RESPONDING CITIES ACCORDING TO THE 1980 CENSUS

Population	Percent	Number of Cities
Less than 1,000	1%	3
1,000 to 4,999	16	60
5,000 to 9,999	14	56
10,000 to 19,999	30	115
20,000 to 29,999	19	79
30,000 to 39,999	10	41
40,000 to 50,000	10	41
	100%	395

The U.S. Census Bureau divides the United States into four regions. These regions are: West, Midwest, South, and Northeast.

The states in each region are as follows:

West: Alaska, Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, and Wyoming;
Midwest: Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Michigan, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin;
South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia;

Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Table II-2 shows percentage and number of respondents by Census region.

TABLE II-2

RESPONDENTS BY CENSUS REGION

Region	Percent	Number
Northeast	4%	18
Midwest	34	130
South	42	166
West	20	81
	100%	395

Table II-3 further breaks down those numbers to show the population size of responding cities by region. The largest percentage of cities responding to the survey (30 percent) are from cities with populations of 10,000 to 20,000. The smallest response was from communities under 1,000. The South had the largest percentage of respondents of less than 10,000 (43 percent).

TABLE II-3

POPULATION OF RESPONDENTS BY REGION

	Total	N.E.	Midwest	South	West
Less than 1,000	1%	0%	1%	1%	1%
1,000 to 4,999	16	6	14	22	16
5,000 to 9,999	14	6	9	20	14
10,000 to 19,999	30	31	39	25	30
20,000 to 29,999	19	25	19	16	19
30,000 to 39,999	10	13	9	5	10
40,000 to 50,000	10	19	9	11	10
	100%	100%	100%	100%	100%

Table II-4 shows that 44 percent of cities that responded are located outside of metropolitan areas, compared to 63 percent for all cities in the nation; 42 percent are suburban communities in metropolitan areas, compared to 34 percent of all cities; and 14 percent are central cities in U.S. Census Bureau Metropolitan Statistical Areas, compared to three percent of all cities.

TABLE II-4

TYPE OF CITY

Central city whose name is included in the title of a Metropolitan Statistical Area (MSA)	14%
In a MSA, but not Central City	42
Located outside a MSA	44
	100%

Form of Government

As Table II-5 shows, 55 percent of responding cities have the council-manager form of government, while 42 percent have the mayor-council form of government. Table II-6 shows the form of government of respondents by region.

TABLE II-5
FORM OF GOVERNMENT

Mayor-Council	42.0%
Council-Manager	55.0
Commission	2.0
Town Meeting	.5
Representative Town Meeting	.5
	100%

TABLE II-6

FORM OF GOVERNMENT BY REGION

Form of Government	N.E.	Midwest	South	West	Total
Mayor-Council	38%	54%	37%	32%	42.0%
Council-Manager	38	43	61	68	55.0
Commission	0	3	2	0	2.0
Town Meeting	12	0	0	0	0.5
Representative Town Meeting	12	0	0	0	0.5
	100%	100%	100%	100%	100%

Demographic Changes

We asked municipal leaders whether their cities' populations had changed significantly (by five percent or more) since 1980, and whether their communities had experienced a shift in the age of their populations.

As Table II-7 shows, 46 percent of those who responded said that their city or town had experienced either a population increase, or an increase coupled with a shift in the age of their population. Twenty-one percent said they had experienced a decrease, or a decrease and a shift in the age of their population. Four percent experienced only an age shift, and 29 percent experienced no significant population change.

TABLE II-7

COMMUNITIES CHANGE IN POPULATION, SHIFT IN AGE

Increase & Age Shift	23%
Decrease & Age Shift	14
Increase Only	23
Decrease Only	7
Age Shift Only	4
No Change	29
	100%

When we asked about this age shift, 71 percent of those who responded indicated a significant change in the composition of their communities' population. Table II-8 indicates just how the population has changed.

TABLE II-8

CAUSES OF SHIFT IN AGE OF POPULATION

Shift was due to:	
Increase in Elderly	55%
Increase in Youth	13
Decrease in Elderly	2
Decrease in Youth	8
Increase in Working Age	13
Decrease in Working Age	9
	100%

Over half (55 percent) of the communities responding indicated that the change in population was due to an increase in the proportion of elderly. Only two percent noted a decrease in the proportion of elderly.

What problems and circumstances are small cities and towns having to face with the change in population? Table II-9 indicates six ways that the communities are being affected by a change in population.

Forty-nine percent of those responding to the survey stated that the change in population had not caused a single problem or circumstance, but had multiple effects listed in Table II-9.

Change in Community Conditions

We have noted that the composition of the population in the majority of small communities surveyed has changed, and that the change in many communities is due to an increase in the proportion of elderly.

With this in mind let us turn to other changes in community conditions that have occurred.

TABLE II-9

HOW POPULATION SHIFTS HAVE AFFECTED CITIES

Change in Population Has:	
Reduced the Tax Base	17%
Increased the Tax Base	15
Increased Demands on Education	2
Increased Demands on Social Services	6
Increased Demands on Housing	2
Increased Demands on Parks	3
Other	6
Multiple Effects	49
	100%

The respondents were presented with a list of twenty conditions (Table II-10) and were asked to note whether these conditions had "improved," "worsened," or whether there had been "no change." Respondents were also given the choice of "not sure."

Choosing from those same community conditions, we asked respondents to rank their three most important problems for 1986 and 1987. These were the results.

The three most important problems for 1986:

1. Ability to attract industry/jobs
2. Streets, roads and sidewalks
3. Overall economic conditions

The three most important problems for 1987:

1. Ability to attract industry/jobs
2. Streets, roads and sidewalks
3. Overall economic conditions

Respondents listed the ability to attract industry and jobs as their most important problem in both years. The related concern of overall economic conditions was listed third both years, and concern about local infrastructure (streets, roads and sidewalks) was listed second.

While cities listed their ability to attract industry and jobs as their top problem, when asked to show how community conditions had changed, 41 percent of cities that responded said their ability to attract industry and jobs had "improved" over the past year (Table II-10). That suggests that many cities are experiencing a better climate for economic development.

TABLE II-10

CHANGE IN COMMUNITY CONDITIONS

CONDITION	CHANGE			
	Improved	Worsened	No Change	Not Sure
Ability to Attract Industry/Jobs	41%	17%	39%	3%
Small Business Closings/Farm Foreclosures	7	39	45	9
Available/Affordable Housing	33	17	45	5
Ability to Keep Youth	9	26	50	15
Unemployment	22	33	39	6
Overall Economic Conditions	37	30	28	5
Interest Rates on City Borrowing	59	12	22	7
Fiscal Condition	30	37	31	2
Cost of Living	20	30	44	6
Cost of Energy	26	34	38	2
Streets, Roads, Sidewalks	28	32	38	2
Public Transportation	7	11	66	16
Homelessness	4	18	52	26
Crime	15	29	51	5
Poverty	4	26	48	22
Drugs	8	39	35	18
Health Care	20	11	53	16
Garbage Disposal	14	9	74	3
Water Treatment	24	4	68	4
Sewer Treatment	27	5	64	4

TABLE II-11

MOST IMPORTANT PROBLEMS: 1986 AND 1987

Problem	Percent of Cities Selecting Items as First, Second, or Third Choice 1986	1987
Ability to attract industry/jobs	13%	13%
Small business closings/farm foreclosures	5	5
Available/affordable housing	5	5
Ability to keep youth	2	2
Unemployment	8	8
Overall economic conditions	9	9
Interest rates on city borrowing	-	-
Fiscal conditions	7	7
Cost of living	1	1
Cost of energy	2	2
Streets, roads and sidewalks	10	10
Public transportation	1	2
Homelessness	1	1
Crime	5	5
Poverty	1	1
Drugs	5	5
Health care	-	-
Garbage disposal	2	2
Water treatment	4	3
Sewer treatment	6	5
Other	13	14
	100%	100%

The second most important problem in 1987 was streets, roads and sidewalks, with overall economic conditions ranking third for both years.

When asked to rate the status of community conditions, about one-third of the respondents (37 percent) said overall economic conditions had "improved," 30 percent said they had "worsened," and 28 percent said there was "no change."

Those results, and a similar response when asked to rate the status of fiscal conditions, suggests a disparity among smaller communities in their overall economic well-being.

Another area where responses were split was streets, roads and sidewalks. While 38 percent of respondents said that community conditions did not change in the past year, 32 percent said those conditions had worsened, and 28 percent said they had improved.

For the most part, a majority of cities recorded "no change" in several basic services: garbage disposal, 74 percent; water treatment, 68 percent; public transportation, 66 percent; and sewer treatment, 64 percent.

The condition rated "improved" by the most cities (59 percent) was interest rates on city borrowing, followed by ability to attract industry/jobs, 41 percent, and available/ affordable housing, 33 percent.

Small business closings and farm foreclosures have worsened in the largest number of communities (39 percent); 39 percent also said the drug problem had worsened in their communities.

Consolidation and Disincorporation

When asked about legal consolidation to create a new entity, or disincorporation, ninety-six percent of those who responded indicated that their city/town was not currently faced with either situation. In comparison, only two percent said they were facing a forced consolidation, and only one percent were choosing or considering consolidation or disincorporation.

TABLE II-12

LEGAL CONSOLIDATION/DISINCORPORATION

My City/Town is Facing a Forced Consolidation	2%
My City/Town Has Chosen to Consolidate	1
My City/Town is Considering Disincorporation	1
My City/Town is Not Currently Faced with Consolidation Disincorporation	96
	100%

CHAPTER III

THE GENERAL FUND BUDGET AND CITY PERSONNEL

"In these times, you have to operate smarter."

Paul Thornton
Council Member
Vienna, West Virginia

A large percentage of American cities are currently experiencing fiscal stress. NLC's annual Fiscal Conditions Survey found that 53 percent of cities with populations under 10,000 expect to see revenues drop in 1987.

Increasingly, many small cities are also seeing expenditures exceed revenues. The gap is getting bigger between expenditures and the revenues to cover those expenditures. Small cities are balancing their budgets by drawing down their beginning balances. Sixty percent of the cities report reducing these balances in 1987.

At the same time the State of Small City Survey was mailed, the National League of Cities also conducted its annual City Fiscal Conditions Survey. To avoid duplicating questions on both surveys, we sought city general fund and personnel information only on the Fiscal Conditions Survey.

That survey was conducted and reported by Douglas D. Peterson, Senior Policy Analyst with NLC's Office of Policy Analysis and Development, (City Fiscal Conditions In 1987, NLC, June 1987), who provided us with the general fund and personnel data for cities under 50,000, which we discuss in this chapter.

The introductory discussion of the general fund that follows, also came, for the most part, from that report.

The Fiscal Conditions Survey asked cities for a three-year history/projection of their general fund budget.

The general fund was selected as the focus of the survey and the follow-up report for these reasons:

- It is "normally the most important fund of a municipality," according to a recent report from the International City Management Association, and usually finances many basic municipal functions.

- It is frequently a key focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works, planning and central administration departments.

- It is often the area where state-imposed limitations on taxing and spending are most binding.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: 1) the complexity of a city's accounting system and the dictates of federal or state laws; 2) borrowing requirements imposed by lenders; or 3) the functions a city carries out.

In some very small communities, the entire budget may be in the general fund; in larger communities there are typically a number of special funds in addition to the general fund.

Information We Asked Cities To Provide

Cities were asked to provide four figures for the fiscal years ending in 1985, 1986 and 1987:

- Beginning Balance--the resources in the general fund at the beginning of the city's fiscal year.

- Revenues (and transfers in)--the grand total of all taxes, fees, charges, federal and state grants, and other funds deposited in the general fund. "Transfers in" occur when a city brings funds from one of its other specialized funds into the general fund.

- Expenditures (and transfers out)--the grand total of all spending, which might include both operating and capital spending. Transfers to other funds are also included here.

- Ending Balance--the resources left in the general fund at the end of the year. The ending balance results from this equation: Beginning Balance + Revenue-Expenditures = Ending Balance. The ending balance of one year becomes the beginning balance of the next year.

Because the survey was completed in March and April, respondents estimated budget figures for the fiscal year ending in 1987. We anticipate the actual 1987 figures will differ from those reported here. Some of the 1986 figures are also subject to adjustment, particularly for those cities with fiscal years ending in December.

Three hundred thirty-five cities and towns under 50,000, out of 1,110 cities that received it, responded to the Fiscal Conditions Survey, conducted in March and April 1987. Table III-1 shows the population distribution of respondents.

TABLE III-1

SMALL CITIES THAT RESPONDED TO FISCAL CONDITIONS SURVEY

	NE	Midwest	South	West	Total
Less than 10,000	1	29	52	17	99
10,000 to 50,000	9	91	77	59	236
	10	120	129	76	335

TABLE III-2

DISTRIBUTION OF RESPONDING CITIES BY REGION AND METROPOLITAN STATUS

	Central	Suburban	Rural	Total
Northeast	2	4	4	10
Midwest	6	63	50	119
South	12	54	63	129
West	3	38	35	76
Total	23	159	152	334

NOTE: Central city means a designated central city of a metropolitan statistical area; suburban means that the city is located within a metropolitan statistical area but is not a central city; and rural means that the city is located outside a metropolitan area.

Revenue Patterns

One way of examining the fiscal condition of a city is to look at its pattern of revenue increase. The growth in revenue goes a long way in defining the capacity of the city to supply services and to meet the increased cost of providing the services.

Table III-3 shows the patterns of revenue change responding cities and towns reported. While 22 percent of these cities saw revenue declines in 1986, 39 percent expect declines in 1987. Almost three-fourths of respondents experienced revenue increases from Fiscal Year 1985 to FY 1986, while about half saw revenues rise from FY 86 to FY 87.

TABLE III-3

PATTERNS OF REVENUE CHANGE

	FY 85 to FY 86	FY 86 to FY 87
Decline	22%	39%
Constant	4	5
Increase	74	56

When we looked at revenue declines on a regional basis (Table III-4), cities reported declining revenues in three regions: the South, Midwest and the West. We had insufficient response to analyze this trend for cities in the Northeast.

While about 20 percent of respondents reported revenue decreases in all three regions for FY 85 to FY 86, that percentage rose substantially in all three regions for FY 86 to FY 87.

The prospects for 1987 revenue growth are viewed even more pessimistically by the smallest communities (those under 10,000). Twenty-eight percent of these cities saw a revenue decline in 1986, but 53 percent expect this to occur in 1987. Over half of the smallest cities and towns expect to see their revenues fall in 1987. Expectations are less extreme in cities from 10,000 to 50,000, where 33 percent expect revenue declines.

TABLE III-4

REVENUE PATTERNS BY REGION

	Percent of Cities with Revenue Decreases	
	FY 85 to FY 86	FY 86 to FY 87
Total all regions	22%	39%
Northeast	*	*
Midwest	20	35
South	21	44
West	27	42

*Insufficient response rate, however we know from other sources that many cities in the Northeast are experiencing decreasing revenues.

Because the fiscal years of many cities and towns end at different times than the federal fiscal year, many communities reported some General Revenue Sharing money in their 1987 budgets. With no FY 1988 GRS money coming, due to elimination of the program by the federal government, the chances are high that cities will experience further declines in revenue next year.

Spending Patterns

The other side of the general fund equation is the spending required to provide community services. Table III-5 shows that spending patterns have been consistent over the two periods, FY 85 to FY 86 and FY 86 to FY 87.

TABLE III-5

SPENDING PATTERNS

	Percent of Responding Cities	
Expenditure	FY 85 to FY 86	FY 86 to FY 87
Decline	20%	25%
Constant	4	4
Increase	76	71
	100%	100%

Table III-6 shows a regional breakdown of spending patterns for communities that reported declining revenues. Respondents in both the Midwest and the South reported lower levels of spending from one period to the next. Almost a quarter of responding cities in the West had lowered levels of spending in both periods.

TABLE III-6

DECLINING SPENDING BY REGION

	Percent of Cities That Reported Declining Spending	
	FY 85 to FY 86	FY 86 to FY 87
Total	20%	25%
Northeast	*	*
Midwest	16	23
South	21	29
West	24	24

*Insufficient response

Matching Revenues and Expenditures

To this point, we have looked at revenues and spending as though they were independent functions. In fact, they are interdependent.

Most cities are legally required by state law, constitution or local charter to balance their budgets. A balanced budget means total resources (revenues plus balances) cover total spending.

The survey responses suggest that small cities are having to stretch harder to balance their budgets. As Table III-7 shows, 53 percent of respondents anticipate expenditures for 1987 will exceed revenues, compared to 30 percent in 1985 and 34 percent in 1986.

TABLE III-7

REVENUES AND EXPENDITURES COMPARED

	1985	1986	1987
Expenditures exceeding revenues	30	34	53
Expenditures equaling revenues	8	10	26
Revenues exceeding expenditures	62	56	21

Because the political and legal penalties for not balancing the budget are so severe, there is a natural conservative bent in city government budgeting. Cities are often modest in revenue projections and pessimistic in estimating expenditures. This gives city officials leeway to ensure that their budgets will be balanced at the end of the fiscal year.

Since the 1987 budget figures cities gave us are estimated figures, we expect the actual results to be somewhat better than projected. Despite this tendency toward pessimism in budget projections, it is still clear from the data received that there is increased pressure on small city budgets because revenues do not meet expenditures.

In order to look at the magnitude of revenue/expenditure imbalances within city budgets, we have developed an index that allows us to compare various sizes of budgets.

We will call it the "imbalance index." It is computed for each city by subtracting expenditures from revenues and dividing the result by expenditures. Converted into a percentage, this is the "imbalance index."

A city with $1 million in revenue and $1.1 million in expenditures would have an imbalance index of -9. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1.1 million and expenditures of $1 million would have a positive index of 10.

When we looked at responding cities' imbalance indexes, (Table III-8) we found an increasing number of cities expecting expenditures to exceed revenues by more than five percent. Fourteen percent of responding cities and towns had an imbalance index of -5 or less in 1985, while 29 percent projected that level for 1987.

TABLE III-8

IMBALANCE INDEXES FOR 1985, 1986, 1987*

	1985	1986	1987
Worse than -5	14	16	29
-5 to +5	55	57	62
Better than 5	31	27	9
	100%	100%	100%

*Imbalance index = $\frac{\text{Revenue - Expenditure}}{\text{Expenditure}} \times 100$

As would be expected, most cities cluster in the middle range. The data however still clearly shows the deteriorating budget trends discussed earlier. In each year, greater percentages of small cities have imbalance indexes exceeding -5.

Bridging the Revenue-Expenditure Gulf

To make up for this revenue-expenditure imbalance, cities are forced to use the balances with which they begin the year. We also developed an index to compare beginning balances.

We derived the index by dividing the 1987 beginning balance by 1987 expenditures and converting the resulting figure to a percentage.

Table III-9 shows the 1987 beginning balances, based on our index. Cities' balances at the beginning of 1987 are positive, as they must be to deal with fluctuating revenue and expenditure flows during the budget year. A 15 percent beginning balance is roughly equivalent to two months expenditures if expenditures flowed evenly throughout the year.

TABLE III-9

1987 BEGINNING BALANCES

(Measured as % of expenditures by region)

Beginning Balance Index	Total	Northeast	Midwest	South	West
Negative	3	-	5	0	4
0	1	-	1	1	0
1 to 15	34	-	28	40	35
Over 15	62	-	66	59	61
	100%	*	100%	100%	100%

*Insufficient response

Significant portions of these balances may be "set aside" or reserved for specific purposes and thus may not be available for general operations. Examples would be funds set aside for the payment of liability claims or funds reserved for specific projects. This segregation of special funds within the general fund is probably much more common in smaller communities, than establishing separate funds.

It is with funds drawn from the unreserved portion of these balances that cities are balancing their budgets.

What is Happening to Balances During 1987

Sixty percent of small cities responding to the fiscal survey said they will be reducing their balances during FY 1987; 18 percent said they will maintain balances, and 22 percent said their city will augment their balance during 1987 (Table III-10). The

distribution of small cities on this questions is basically the same as the results for the communities with populations of more than 50,000.

TABLE III-10

TREND IN BALANCES, FISCAL YEAR 1987

Change in Balance	% of Cities
Reducing by more than 50%	18
Reducing from 26% to 50%	15
Reducing from 1% to 25%	27
Maintaining balance	18
Increasing balance by 1% to 20%	15
Increasing balance over 20%	7
	100%

These figures show that many cities will be hard-pressed to maintain services if the 1987 projections hold true. Small cities will face FY 1987 with reduced balances, declining revenues, without revenue sharing, and confronting the challenges of financing under the constraints of the new federal tax law.

City Employment

Cities are by definition service providers and thus labor intensive. According to the U.S. Census Bureau's most recent annual study of municipal employment across the nation, total employment by cities of all sizes generally increased until 1980.

In that year, a three-year decline began. In 1985 total municipal employment was below the level of employment 10 years earlier, in 1975.

During the period 1980 to 1985, total municipal employment by cities under 50,000 decreased by four percent.

If we subtract education and hospital employees--those services are most often provided by larger cities and by counties--we get the distribution of total municipal employment by city size as outlined in Table III-11.

This table shows that small cities and towns employ almost four of every 10 municipal employees, and employ slightly more workers in total than the cities of more than 300,000.

TABLE III-11

TOTAL MUNICIPAL EMPLOYMENT
BY CITY SIZE
(Excludes hospital and education workers)

City Population Size	Number of Cities	Total Employees October 1985	% of Total Municipal Employees
300,000 and over	49	814,523	39%
50,000 to 299,999	377	462,949	22
Under 50,000	18,650	825,196	39
Total	19,076	2,102,668	100%

One purpose of the financial survey was to examine the trends in city employment which have occurred since 1985. Table III-12 shows little change in employment patterns over the two time periods.

TABLE III-12
MUNICIPAL PERSONNEL CHANGE
BY CITY

City	1985 to 1986	1986 to 1987
Decreased Employment	30	27
Held Employment Constant	24	29
Increased Employment	46	44
	100%	100%

We also found that 46 percent of responding cities increased employment in 1986, compared to 44 percent in 1987.

When we look at a regional breakdown of the responding cities that reported a reduction in employees, we obtained the results shown in Table III-13. More than one-fourth of those cities in all regions are cutting back municipal employment. This pattern holds over both time periods.

TABLE III-13

PERCENT OF CITIES DECREASING EMPLOYMENT BY REGION

Region	1985 to 1986	1986 to 1987
Total	30	27
Northeast	*	*
Northwest	26	26
South	31	30
West	33	25

*Too few respondents

When the cities that reported increasing employment were analyzed by region, we obtained the results shown in Table III-14. The percentage of cities adding employment has slowed slightly in each of the three regions for which we had sufficient data.

TABLE III-14

PERCENT OF CITIES INCREASING EMPLOYMENT BY REGION

Region	1985 to 1986	1986 to 1987
Total	46	44
Northeast	*	*
Northwest	40	37
South	50	48
West	51	47

*Too few respondents

This data, taken together, reveals a cautious approach city officials are taking toward workforce expansion, with one-fourth of respondents reducing employment for 1987.

CHAPTER IV

FEDERAL FUNDS, FEDERAL MANDATES AND CITY SERVICES

"Weekly prayer." (How the city of Nitro, West Virginia is responding to the loss of General Revenue Sharing.)

Art Ashley
Mayor
Nitro, West Virginia

"Federal cuts (pending) are mostly requiring a shift in expenditures."

James Malone
City Treasurer
Wheat Ridge, Colorado

Cities and towns exist, in part, to offer basic services to their citizens. They traditionally have paid for those services by raising revenue at the local level, usually through property taxes and user fees.

In recent decades, the federal government has provided additional money to cities and towns to help pay for programs and services citizens want, need or are mandated by the federal government to have, but which many cities and towns could not pay for themselves.

In the 1960s the "Great Society" programs of the Johnson Administration attempted to address the pressing needs of housing, poverty and unemployment in the nation's cities.

At the same time, heightened concern about the quality of the air, water and land meant more stringent--and more costly--requirements for sewage treatment, garbage disposal, hazardous waste disposal, stormwater run-off, and automobile emissions, among others.

Since the early 1980s the federal government has rapidly pulled back from its traditional financial partnership with cities and towns. In 1979 priority municipal programs received $55.5 billion in federal funds. By 1986 that had dropped to $25.6 billion ("Does the Federal Government Think Cities and Towns Are in the Public Interest?" NLC, March 1987).

Several questions on the State of the Small City Survey centered on how the loss of one federal program--General Revenue Sharing--has affected the services smaller cities and towns provide, and what fiscal changes they are making to absorb the loss of GRS. We also asked smaller communities to tell us how they're dealing with federal mandates and how they use money from the federal Community Development Block Grant program.

Before we discuss findings in those areas, we'll examine the level of services cities and towns provide.

Level of Services Cities and Towns Provide

Citizens expect their communities to provide basic services. For this survey we listed 15 common city services and asked respondents whether their cities and towns provided "more," "less," the "same" level or "none" of that service during the fiscal year ending in 1987 (Table IV-1). We also asked them what level of those same 15 services they would provide for the fiscal year ending in 1988 (Table IV-2).

About three-fourths of respondents are providing the same level of most services for 1987 as for the year before, and anticipate maintaining the same level of most services in 1988.

More than one-fourth (28 percent) of the respondents are offering more economic development services in 1987, and 30 percent anticipate stepping up economic development services in 1988.

As we learned earlier, cities and towns said their ability to attract industry and jobs was one of their top three problems for 1986 and 1987 (Table II-11). As we see from Table IV-1, one-third of respondents anticipate stepping up those services next year.

When we compared certain community conditions (Table II-10) with the level of some services cities will provide, we got some interesting results.

Economic Development Spending vs. Job Climate

Of the responding cities that said the ability to attract industry and jobs worsened during the past year, 23 percent reported they'll be spending more on economic development in that area in 1987; 48 percent will spend the same; 16 percent will spend less; and 13 percent anticipate spending nothing.

Of those who said they would spend more on economic development, 59 percent said the ability to attract industry and jobs improved, 14 percent said it worsened, and 27 percent reported not sure or no change.

Of those spending less on economic development, 12 percent said the ability to attract industry and jobs improved, 36 percent said it worsened, and 52 percent reported no change.

Areas where 20 percent or more of the respondents will offer a higher level of service in 1988 than 1987 are sewerage, streets, stormwater, water supply and police.

Many cities and towns across the country do not have direct responsibility for providing education, welfare and social services, so it is not surprising that 55 percent said their city is not providing those services in 1987 and will not provide them in 1988.

However, it is also interesting to note that 45 percent said they do provide some level of social services, which goes against the stereotype of cities as providers of only traditional programs and services (streets, garbage collection, water, etc.).

The survey showed that another service most smaller cities and towns do not provide is hazardous waste disposal. Three-fourths of the cities responding did not provide hazardous waste disposal services in 1987, and 68 percent don't anticipate providing that service in 1988.

In addition, 59 percent of respondents did not provide transportation services in 1987 and slightly fewer (56 percent) will not provide them in 1988.

TABLE IV-1

LEVEL OF SERVICE CITIES AND TOWNS EXPECT TO PROVIDE 1987

Service	More	Same	Less	None
Police	18%	77%	5%	0%
Fire	12	78	3	7
Streets	21	63	16	0
Transportation	4	35	2	59
Parks & Recreation	16	67	13	4
Libraries	7	51	5	37
Social Services	3	33	9	55
Welfare	0	12	1	87
Education	4	16	1	79
Water Supply	18	65	1	16
Sewerage	24	63	2	11
Stormwater Drainage	20	65	8	7
Hazardous Waste	0	25	5	75
Garbage Disposal	7	71	3	19
Economic Development	28	50	7	15

TABLE IV-2

LEVEL OF SERVICE CITIES AND TOWNS EXPECT TO PROVIDE FOR 1988

	Level by Percent			
Service	More	Same	Less	None
Police	20%	73%	7%	0%
Fire	15	74	5	6
Streets	25	54	21	0
Transportation	6	33	5	56
Parks	18	60	18	4
Libraries	7	49	9	35
Social Services	4	31	10	55
Welfare	2	11	2	85
Education	6	14	3	77
Water Supply	21	60	1	18
Sewerage	28	58	2	12
Stormwater	22	63	9	6
Hazardous Waste	7	24	1	68
Garbage Collection	9	67	4	20
Economic Development	30	46	9	15

Methods By Which Cities and Towns Provide Services

We also asked city officials how they provide 15 basic services. We gave them seven options for responding to each service:

1. My city/town does not provide this service.
2. My city/town had to discontinue this service.
3. My city raised additional revenue.
4. Joint service with nearby jurisdiction.
5. Offered by another jurisdiction/organization.
6. Contract service out to private contractor.
7. Private support or other.

As Table IV-3 shows, a large percentage of city officials who responded reported that their cities do not offer welfare (77 percent), hazardous waste disposal (74 percent), education (73 percent), transportation (60 percent), or social services (57 percent).

Responses to this question are similar to those received elsewhere on the survey, when respondents noted what level of service their cities are providing this year (Table IV-1), and what level of service their cities expect to provide in 1988 (Table IV-2).

Officials in a majority of cities have raised revenue to provide several basic services, including police (81 percent), streets (73 percent), fire (70 percent), stormwater (69 percent), sewerage (68 percent), parks (65 percent), and water (57 percent).

In addition, officials in 50 percent of cities have raised revenue for economic development activities. Twenty-one percent of responding cities do not provide economic development services.

Garbage was the service most often contracted out, by 32 percent of respondents. A very low percentage of cities contracted out other services, as Table IV-3 shows.

Results of this survey question show that officials in only a few cities are offering services jointly with other jurisdictions.

The response to this question also seems to indicate that officials in very few cities have been willing to discontinue services, even though their choice of "overall economic conditions" as one of their top problems suggests that many of them face fiscal constraints.

TABLE IV-3

HOW CITIES PROVIDE SERVICES

Service	Not Provided	Discon-tinued	Raised Revenue	Joint Service	Offered by Other	Contract Out
Police	3	9	81	5	2	0
Fire	11	7	70	5	6	1
Streets	5	12	73	3	2	5
Transportation	60	4	17	4	12	3
Parks	8	14	65	5	5	3
Libraries	42	3	30	11	13	1
Social Services	57	6	14	7	14	2
Welfare	77	3	1	18	0	1
Education	73	1	6	1	19	1
Water	23	7	57	3	8	3
Sewerage	10	9	68	5	6	2
Stormwater	10	13	69	4	1	3
Hazardous Waste	74	1	12	2	8	3
Garbage Disposal	15	6	42	1	4	32
Economic Development	21	8	50	8	6	7

The Loss of General Revenue Sharing

One of the most far-reaching and cost-effective partnerships between cities and the federal government was ended last year when the General Revenue Sharing program was discontinued, after 14 years in existence. Cities received their last GRS checks in October 1986.

The GRS program was the sole source of direct federal funds for many small communities, who used the no-strings-attached money for everything from police cars to street repairs. How cities are responding to the loss of GRS is the topic of this next section.

Fifty-seven percent of respondents to the survey said they received other federal money besides GRS during the last fiscal year; 43 percent said revenue sharing was their sole source of direct federal funds. Population was a significant factor determining whether a city reported receipt of other federal money.

Generally, the smaller the city, the more likely GRS was to be the only source of federal funds. Sixty-seven percent of the respondents under 1,000 reported GRS was their city's only source of federal funds, 56 percent of those between 1,000 to 5,000 said GRS was their sole source of federal funds, and 16 percent of cities from 40,000 to 50,000 reported the same.

TABLE IV-4

A POPULATION BREAKDOWN OF THE 43 PERCENT OF CITIES THAT SAID GENERAL REVENUE SHARING ONLY FEDERAL FUNDS RECEIVED

Population	
Less than 1,000	67%
1,000 to 4,999	56
5,000 to 9,999	49
10,000 to 19,999	45
20,000 to 29,999	37
30,000 to 39,999	46
40,000 to 50,000	16

We also asked city officials what percentage of revenue sharing they will spend during the current fiscal year for capital outlays (construction projects costing more than $10,000 or purchase of land or equipment having an expected life of five or more years). While capital outlays are often one-time or periodic expenses, they are essential expenditures to keep any city running smoothly.

Forty percent of the respondents said they'll spend all their city's GRS money for capital outlays during the current fiscal year, and 33 percent of those responding said they won't spend any of their GRS funds for capital outlays (Table IV-5).

TABLE IV-5

PERCENTAGE OF GRS SPENT FOR CAPITAL OUTLAYS IN 1987

PERCENT OF FUNDS	RESPONDENTS
0%	33%
1-24	6
25-49	4
50-74	6
75-99	11
100	40
	100%

Next, we asked cities and towns to tell us what percentage of general tax support GRS represented in their budgets for the current fiscal year.

More than half of the respondents (57 percent) said GRS represented less than five percent of their general tax support, and 27 percent said GRS represented less than 10 percent (Table IV-6).

TABLE IV-6

PERCENT OF GENERAL TAX SUPPORT GRS REPRESENTS

Percent of Tax Support	Percent of Respondents
Less than 5%	57%
5-9	27
10-14	9
15-19	2
20-24	2
25 to 49	1
50 to 74	1
75 to 100	1

We wanted to find out how much cities and towns would have to raise tax rates, if they had to replace GRS money with property tax revenue (Table IV-7).

Forty-three percent of the respondents said they would not have to raise property tax rates at all to maintain current services; eight percent said they'd have to raise property tax rates by less than one percent; 21 percent, by one to five percent; and 13 percent of respondents by five to 10 percent.

Fifteen percent of respondents said they would have to raise property tax rates by more than 10 percent to maintain the current level of services.

TABLE IV-7

GRS LOSS/IMPACT ON TAX RATE TO MAINTAIN SERVICES

	Percent of Respondents
No change	43%
Increase less than 1%	8
Increase between 1 - 5%	21
Increase between 5 - 10%	13
Increase more than 10%	15
	100%

A further analysis by region (Table IV-8) shows that 21 percent of the southern cities and 17 percent of the western cities reported they would have to increase their city property tax rates by more than 10 percent in order to replace GRS.

When we asked cities and towns whether they had the legal authority to raise property tax rates by the amount that would be necessary to maintain services with the loss of GRS, 67 percent said they had that authority.

TABLE IV-8

REGIONAL BREAKDOWN--LOSS OF GRS/IMPACT ON PROPERTY TAX RATE TO MAINTAIN SERVICES

Impact on Property Tax Rate	Region			
	Northeast	Midwest	South	West
No change	13%	43%	38%	57%
Increase less than 1%	20	9	6	7
Increase between 1 - 5	40	21	22	14
Increase between 5 - 10	27	17	13	5
Increase more than 10	0	10	21	17
Total	100%	100%	100%	100%

Furthermore, more than half of the cities surveyed (58 percent) said only the city council would have to approve the increase. Twenty percent said the council and the voters would have to approve such an increase; 10 percent said the voters only; and eight percent said that the state legislature or other state authority would need to approve the increase.

How Cities and Towns Will Compensate For Lost GRS Revenue

Now that GRS has been eliminated, city officials were asked to estimate the way the loss of funds would be handled. We presented them with eight catagories and asked to indicate, by a percentage, how their city would make up the loss of GRS funds.

The eight categories were: existing revenue, new local revenue sources, new state grants/revenues, spending cuts, service reductions, tax increase, postponement of capital outlays, or other means.

For example, city officials in Nitro, West Virginia will handle 50 percent of the loss by cutting spending; 25 percent by reducing services; and 25 percent by postponing capital outlays.

Like city officials in Nitro, 66 percent of those who responded will handle this loss by a combination of several actions (Table IV-9).

In contrast, 34 percent of respondents will handle the loss in only one way. Officials in 41 percent of those cities will handle the loss of GRS with revenue increases or tax increases. None of the officials from responding cities and towns said they would use service reduction as a sole means of compensating for the loss of GRS.

TABLE IV-9

HOW CITIES WILL HANDLE LOSS OF GRS

Action Cities Will Take	Percent of GRS Loss					
	0%	1-24%	25-49%	50-74%	75-99%	100%
Revenue Increase	23	25	13	15	3	21%
New Revenue Sources	33	36	11	8	4	8
New Grant/Revenues	61	23	7	2	5	2
Spending cuts	9	36	20	19	5	11
Service Reduction	35	42	14	7	2	0
Tax Increase	26	25	10	15	4	20
Postponement of Outlays	11	24	19	28	6	12
Other Means	33	16	6	16	4	25

GRS Loss and Service Reduction

When asked which services were reduced as a result of the elimination of GRS, only one service had been cut back in more than half of the responding cities and towns. Fifty-one percent of city officials said street services had been reduced due to GRS elimination; 37 percent have reduced parks and recreation; 24 percent have reduced police services, and 20 percent have cut back on fire services. (Table IV-10).

The response to this question shows that city officials are striving to maintain many basic services, despite the loss of GRS.

TABLE IV-10

SERVICE REDUCTION DUE TO LOSS OF GRS

Service	Yes
Streets and Roads	51%
Parks and Recreation	37
Police	24
Fire	20
Social Services	17
Storm Water Drainage	17
Garbage Collection	16
Economic Development	16
Libraries	13
Sewerage	10
Transportation	9
Water Supply	8
Welfare	5
Education	5
Hazardous Waste Disposal	3

The Community Development Block Grant

The Housing and Community Development Act was signed into law on August 22, 1974 by President Gerald R. Ford. Since then, millions of dollars have been pumped into communities across the country for housing and community development activities. This year the 100th Congress is grappling with whether to reauthorize the program.

As Table IV-11 shows, more than one-third (36 percent) of respondents to the survey said their cities did not receive any CDBG money during the last fiscal year. The remainder of cities received amounts ranging from $9,370 to $1.9 million.

TABLE IV-11

HOW MUCH CDBG MONEY DO SMALLER CITIES RECEIVE

Dollars	Percent of Respondents
0	36%
1 to 99,999	15
100,000 to 299,999	20
300,000 to 499,999	12
500,000 to 699,999	10
700,000 to 899,999	3
900,000 and above	4
	100%

Almost two-thirds of officials from responding cities and towns said their communities are using some of those funds for infrastructure, and 48 percent are using some of those funds for housing. Table IV-12 shows other ways cities are spending that money.

TABLE IV-12

HOW CDBG IS BEING USED

Program	Percent of Cities*
Infrastructure	61%
Economic Development	31
Housing	48
Human Services	27
Other	10

*Does not equal 100% due to multiple uses.

Federal Mandates and Small Communities

As noted earlier, federal aid to all cities and towns for priority programs has been cut from $55.5 billion in 1979 to $25.6 billion in 1986. That withdrawal of support for the nation's cities has made it difficult for many municipalities to pick up the cost of programs mandated by the federal government.

As part of our survey, we listed four of the most common federal mandates imposed on municipalities, and asked officials to note which were "causing problems" for their communities.

The choices were:

1. The Federal Water Pollution Control Act of 1972 (clean water).
2. Permits for stormwater sewers.
3. Employee benefits and rights.
4. RCRA (isolating landfill sites).
5. None of these are causing problems for my city/town.
6. Other (Please specify).

More than half of responding cities said clean water and employee benefits were mandates causing problems for their communities. (Table IV-13).

TABLE IV-13

PROBLEMS CAUSED BY MANDATES

Mandate	Percent of Cities Responding*
Clean Water	54%
Employee Benefits	51
RCRA	22
Stormwater/Sewers	14
None of those listed	2
Other	21

*Does not equal 100% due to multiple responses.

When we asked officials where their cities were getting the money to comply with those mandates listed in Table IV-13, we found that smaller communities are not relying on one source to raise the revenue needed.

The survey listed these options from which we asked city officials to choose:

1. Increase user fees.
2. Raise taxes.
3. Increase special assessments.
4. Cut spending in other areas.
5. All of the above.
6. Other (Please specify).

As Table IV-14 shows, 47 percent of those who responded indicated they would have to use all or several of those methods to cover the cost of mandates.

TABLE IV-14

HOW CITIES WILL PAY FOR FEDERAL MANDATES

Method	Percent
Increase User Fees	19
Raise Taxes	5
Increase Special Assessment	1
Cut Spending	10
All of the Above	18
Multiple Response	47
	100%

CHAPTER V
LEGAL LIABILITY AND SMALL COMMUNITIES

"The section on insurance is important; our major cost increases were in property and auto liability. Property went up 154 percent, and auto liability went up 74 percent."

A. Lee Galloway
City Manager
Rockingham, North Carolina

Over the last several years legal liability issues have become a particular problem for cities and towns across the country.

Among them:

- The vulnerability of municipalities to being sued, partly because the possibilities for suits are so numerous--everything from tripping on the sidewalk to getting injured during the local softball tournament. In addition, municipalities are perceived to have the "deep pockets" composed of taxpayers money, and thus the perceived ability to pay large awards if judged responsible.

- The availability of municipal liability insurance on the commercial market.

- The cost of municipal liability insurance, when it is available. Rates on insurance premiums have soared while limits of coverage have been reduced.

As part of our survey, we asked officials from small cities to assess the current liability situation in their communities.

As Table V-1 shows, eighty percent of those who responded said legal liability, the cost of liability insurance, and the fact that liability insurance just was not available remain either "critical" or "serious" problems. Seventeen percent said they remain "important,

but no longer serious problems." Only three percent felt liability insurance was not a problem for their communities.

TABLE V-1

CURRENT EVALUATION OF THE LEGAL LIABILITY SITUATION

Evaluation	Percent of Respondents
Critical Problem	35
Serious Problem	45
Important, but not serious	17
No Longer a Problem	3
	100%

Next we asked city officials how they fund general liability protection for their cities. We gave them these choices:

1. Commercial insurance
2. Self-insured, completely city funded
3. Limited self-insured with supplemental commercial insurance
4. Insurance pools
5. My city has no provisions (or funds) for liability insurance

Forty percent of respondents buy insurance from the commercial market and 30 percent participate in insurance pools. Only 10 percent of communities responding are fully self-insured (Table V-2).

TABLE V-2

METHOD USED TO PROVIDE GENERAL LIABILITY INSURANCE

Method of Coverage	Percent of Responding Cities
Commercial Insurance	40
Self Insured, City Funded	10
Limited Self Insured	19
Insurance Pools	30
No Insurance	1
	100%

On further analysis, we found that city officials' perceptions of the seriousness of the legal liability problem correlates with the method by which their city finances the cost of their risk.

Ninety-one percent of cities which said legal liability issues remain critical or serious problems purchase insurance on the commercial market, while 78 percent of those which self-insure, 77 percent with limited self-insurance and 67 percent of cities that participate in pools said those remain critical or serious problems.

TABLE V-3

PERCEIVED LIABILITY PROBLEMS
VS.
METHOD USED TO PROVIDE INSURANCE

Evaluation	Commercial Insurance	Self Insured	Limited Self Insured	Pool	No Insurance
Critical Problem	42%	51%	30%	22%	100%
Serious Problem	49	27	47	45	0
Important	8	19	20	26	0
Not a Problem	1	3	3	7	0
	100%	100%	100%	100%	100%

What Liability Insurance Costs

In 1984, 79 percent of those cities that responded to the survey spent less than $75,000 annually on insurance premiums. By 1986, that had decreased to 40 percent. Table V-4 shows what responding cities and towns have spent on liability insurance premiums over the past three years.

TABLE V-4

LIABILITY INSURANCE PREMIUMS, 1984-1986

Premium	1984	1985	1986
0	2	2	3
$1 - 24,999	32	22	15
$25,000 - 49,999	26	18	11
$50,000 - 74,999	19	17	11
$75,000 - 99,999	6	4	12
$100,000 - 199,999	12	26	29
$200,000 and above	3	11	19
	100	100	100

Next we asked city officials to tell us what the deductible amount for their liability policies were over the last three years. As Table V-5 shows, 85 percent of respondents had a deductible of less than $10,000 in 1984; 82 percent in 1985, and 74 percent in 1986.

TABLE V-5

DEDUCTIBLE LIMITS ON LIABILITY INSURANCE POLICIES

Deductible Amount	Year		
	1984	1985	1986
$0 - 999	43	36	29
$1,000 - 9,999	42	46	45
$10,000 - 99,999	8	11	17
$100,000 - 199,999	5	3	6
$200,000 - 299,999	1	2	1
$300,000 - 399,999	1	1	1
$400,000 and above	0	1	1
	100%	100%	100%

When we asked city officials what their liability limits were, we found they had risen for the last three years in many communities. As Table V-6 shows, 33 percent of the respondents had liability limits of $500,001 to $1 million in 1984. In 1985, that rose to 44 percent, and in 1986, 50 percent of respondents had those limits.

TABLE V-6

LIMITS OF LIABILITY

Liability Limit	Percent of Respondents		
	1984	1985	1986
Under $10,000	4%	3%	3%
$10,001 - 500,000	29	27	25
$500,001 - 1,000,000	33	44	50
$1,000,001 - 6,000,000	20	17	19
Over $6,000,000	14	9	3

We next asked city officials how many awards or settlements of more than $200 their cities had paid out over the last three years or that were pending.

As Table V-7 shows, almost a third of responding cities did not pay any awards or settlements of more than $200 in 1984, 1985, or 1986, and 27 percent have no pending cases.

About half of the respondents paid awards or settlements of under $250,000 in those three years, and 41 percent have cases pending. Eight percent of cities reported cases pending that could result in settlements of more than $1 million.

TABLE V-7

TOTAL DOLLAR AMOUNT OF AWARDS AND SETTLEMENTS

Dollar Amount	Percent of Respondents			
	1984	1985	1986	Pending
No awards	34	30	30	27
Under 250,000	51	55	50	41
250,000-499,000	1	1	2	4
500,000-999,999	1	.5	--	2
Over a million	0	.5	0	8
Uncertain	13	13	14	18
	100%	100%	100%	100%

In addition, city officials were asked to list the total number of awards or settlements of more than $200 paid by their city. As we previously noted, there were cities that had no claims filed against them.

Officials from responding cities and towns reported that more than 90 percent of their awards or settlements were resolved outside the courtroom during 1984, 1985 and 1986. (Table V-8)

That is considerably above the 75 percent national average for out-of-court settlements by corporations and cities, as reported by several sources. It is possible that smaller cities and towns, many already facing financial hardships, can ill afford costly court battles.

TABLE V-8

TOTAL AWARDS AND HOW SETTLED 1984 - 1986

Year	Number of Awards	How Settled	
		In Court	Out of Court
1984	1,088	8%	92%
1985	1,220	8	92
1986	1,123	7	93

APPENDIX

STATE OF THE SMALL CITIES SURVEY
NATIONAL LEAGUE OF CITIES
395 Cities Responding

ALABAMA

Bay Minette
Dothan
Fairfield
Fayette
Foley
Gulf Shores
Hoover
Jasper
Midfield
Moulton
Scottsboro
Tuskegee
Uniontown

ALASKA

Valdez

ARIZONA

El Mirage
Flagstaff
Goodyear
Paradise Valley
Peoria
Show Low
Sierra Vista
Springerville
Yuma

ARKANSAS

Mulberry

CALIFORNIA

Arcadia
Arcata
Beverly Hills
Campbell
Cathedral City
Claremont
Cupertino
Duarte
Fontana
Indio
Lodi
Lomita
Los Alamitos
Martinez
Menlo Park
Montclair
Petaluma
San Gabriel
San Pablo
Santa Fe Springs
Santa Paula
Signal Hill

COLORADO

Brighton
Englewood
Estes Park
Glendale
Grand Junction
La Junta
Northglenn
Wheat Ridge

CONNECTICUT

Manchester
Torrington

DELAWARE

Dover
Newark
Smyrna

FLORIDA

Atlantic Beach
Boca Raton
Bradenton
Coral Gables
Davie
Delray Beach
Dunedin
Homestead
Jacksonville Beach
Melbourne
Naples
North Miami
Okeechobee
Oldsmar
Ormond Beach
Palm Bay
Palm Beach
Pinellas Park
Sanford
Sanibel
Sarasota
Sweetwater

GEORGIA

Augusta
Brunswick
Byron
Cartersville
College Park
Covington
Decatur
Hapeville
Moultrie
Norcross
Snellville
Social Circle
Summerville
Thomson
Waycross

IDAHO

Pocatello

ILLINOIS

Bellwood
Boling Brook
Carbondale
Country Side

ILLINOIS

Downers Grove
Evergreen Park
Farmer City
Hazel Crest
Lake Forest
Loves Park
Moline
Normal
Norridge
Paris
Quincy
Rock Island
Streamwood
Village of Buffalo Grove
Village of Glencoe
Westmont
Winnetka
Wood Dale

INDIANA

Beech Grove
Elkhart
Huntington
Kendallville
Kokomo
Nappanee

IOWA

Burlington
Cedar Falls
Fort Dodge
Indianola
Keokuk
Muscatine
Orange City
Ottumwa
Sioux Center
Urbandale

KANSAS

Beloit
Dodge City
Hillsboro
Liberal
Merriam
Ottawa
Pittsburg
Prairie Village

KENTUCKY

Burkesville
Covington
Florence
Frankfort
Franklin
Lebanon
Murray
Newport
Williamstown

LOUISIANA

Abbeville
Brusly
Estherwood
Franklin
Mandeville
Port Allen
Rayville
Thibidoux
White Castle

MAINE

Gorham

MARYLAND

Brunswick
Cheverly
Cumberland
Ocean City
Rockville

MASSACHUSETTS

Arlington
Stoneham
Worthington

MICHIGAN

Berkley
Gladwin
Grosse Pointe Woods
Highland Park
Holland
Hudson
Huntington Woods
Inkster
Madison Heights
Monroe
Muskegon Heights
Norton Shores
Romulus
Wayne

MINNESOTA

Austin
Champlin
Columbia Heights
Crystal
International Falls
Minnetonka
Northfield
North Mankato
Owatonna
Red Wing
Roseville
Saint Cloud
South Saint Paul
Willmar
Winona

MISSISSIPPI

Grenada
Gulfport
Hattiesburg
Laurel
Meridian
Morton
Natchez
Pontotoc
Tupelo

MISSOURI

Berkeley
Bridgeton
Cape Girardeau
Crestwood
Hazelwood
Kirksville
Lee's Summit
Maplewood
North Kansas City
Olivette
Poplar Bluff

MISSOURI

Richmond Heights
Saint Peters
University City
Warrensburg

MONTANA

Bozeman
Butte
Cut Bank
Missoula

NEBRASKA

Beatrice
Bellevue
Imperial
Kearney
Norfolk
North Platte
Scottsbluff
South Souix City
West Point
York

NEVADA

Caliente
Henderson
Sparks

NEW HAMPSHIRE

Salem
Portsmouth

NEW MEXICO

Artesia
Gallup
Los Alamos
Los Lunas

NEW YORK

Dunkirk
Fredonia
Port Jervis
Poughkeepsie
Scarsdale
Village of Port Chester
White Plains

NORTH CAROLINA

Asheboro
Burlington
Canton
Caroiina Beach
Conover
Fairmont
Garysburg
Goldsboro
Henderson
Hickory
Jacksonville
Kernersville
Lumberton
Madison
Mocksville
Reidsville
Rockingham
Scotland Neck
Statesville
Tarboro
Valdese
Whiteville

NORTH DAKOTA

Dickinson
Grafton
Grand Forks
Harvey
Williston

OHIO

Athens
Bedford Heights
Brook Park
Garfield Heights
Greenville
Grove City
Lyndhurst
Mayfield Heights
Mentor
Miamisburg
Newark
Oberlin
South Euclid
Tiffin
Trotwood
University Heights
Village of Carey
Village of Dublin
Wickliffe
Wooster

OKLAHOMA

Duncan
Grove
Guymon
McAlester
Moore
Ponca City
Shawnee
The Village

OREGON

Beaverton
Cottage Grove
Dallas
Gresham
Hermiston
Hillsboro
Lake Osuego
Milwaukie
Springfield
The Dalles

PENNSYLVANIA

York

SOUTH CAROLINA

Aiken
Anderson
Lancaster
Manning
North Myrtle Beach
Seneca
Tega Cay
West Columbia

SOUTH DAKOTA

Brookings
Pierre
Spearfish
Watertown

TENNESSEE

East Ridge
Etowah
Fayettville
Germantown
Lawrenceburg
Manchester
Morristown
Oak Ridge
Paris
Pulaski
Red Bank

TEXAS

Bellaire
Celburne
Copperas Cove
Denton
Eagle Pass
Edinburg
Everman
Grapevine
Greenville
Lake Jackson
La Porte
Pampa
Robstown
Saginaw
San Marcos
Spearman
Stephenville
Vernon
Wharton

UTAH

South Salt Lake

VERMONT

Battleboro
Burlington

VIRGINIA

Charlottesville
Chase City
Fairfax
Petersburg

WASHINGTON

Auburn
Bremerton
Edmonds
Kelso
Kent
Lynnwood
Mountlake Terrace
Oak Harbor
Puyallup
Redmond
Vancouver
Yakima

WEST VIRGINIA

Clarksburg
Nitro
Philippi
Vienna
Weirton

WISCONSIN

Beloit
Buffalo City
Greenfield

WYOMING

Cody
Douglas
Evanston
Gillette
Green River
Riverton
Sheridan

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

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